

LA PORTE CITY UTILITIES
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

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La Porte City Utilities

Board of Trustees

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------------|---------------------|---------------------|
| (Before September 2011) | | |
| Phil Norris | Trustee - Chairman | September 2015 |
| Don Heckroth | Trustee - Secretary | September 2011 |
| Jon Barz | Trustee | September 2013 |

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------|---------------------|-------------------------------|
| (After September 2011) | | |
| Jon Barz | Trustee - Chairman | September 2013 |
| Phil Norris | Trustee - Chairman | Resigned effective March 2012 |
| Tami Keune | Trustee - Secretary | September 2020 |
| Dave Neil | Trustee | September 2021 |



Alan W. Flick, CPA
Gina E. Trimble, CPA

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Independence, IA 50644
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Independent Auditor's Report

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2012, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the La Porte City Utilities's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2012 on our consideration of the La Porte City Utilities's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise La Porte City Utilities' basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and

expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 through 5. Including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying account and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise La Porte City Utilities' basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 6 through 10 and 22 through 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

December 12, 2012

LA PORTE CITY UTILITIES

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MANAGEMENT DISCUSSION AND ANALYSIS

La Porte City Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. It is to be used in conjunction with the Utilities Annual Report, which follow.

BASIS OF ACCOUNTING

The Utilities has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a method of accounting other than generally accepted accounting principles. Basis of accounting is a reference as to *when* financial events are recorded. Under the modified cash basis of accounting, revenues and expenses and their related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (*such as accounts receivable and revenue for billed or provided services not yet collected*); as well as certain liabilities and their related expenses (*such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities*) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

Basic Financial Statements

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)
Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)
Presents the Utilities operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)
Reconciles any differences between Exhibit A and Exhibit B

Notes to the Financial Statements

- Provide additional information essential to a full understanding of the data provided in the basic financial statements.

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2012

Required Supplementary Information

- Further explains and supports the financial statements with a comparison of the Utilities budget for the year.

Other Supplementary Information

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)
Presents the non-major funds in more detail that were lumped together in Exhibit B.
- **Schedule of Indebtedness** (Schedule 2)
Presents detailed information on outstanding debts incurred by the Utilities.
- **Bond and Note Maturities** (Schedule 3)
Summarized bond repayment schedule
- **Schedule of Receipts by Source and Disbursements by Function – All Proprietary Funds** (Schedule 4)
Provides a multi-year comparison of the Utilities revenues and disbursements as a whole.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

BASIC FINANCIAL STATEMENTS

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)

The first section of the statement presents the major **Functions/Programs**. For the Utilities, those are the Electric Fund, Water fund, Debt Service Reserve Fund, Capital Improvement Reserve fund, Capital Project Water System Improvement fund and the Diesel Engine Reserve fund. The *Disbursements* are listed in the first column with *Charges for Service* and *Restricted Interest* revenues from each program to the right. The result is a Net (Expense)/Revenue. This is to determine the extent to which the programs support themselves.

The next section is the **General Receipts**. It shows the *Bond Proceeds*, *Unrestricted Interest*, *Miscellaneous Revenues*, and *Transfers*. These revenues are not listed above because they are not generated from the direct operation of the program.

Adding the *Business Type Activities Total* with the *Total General Receipts and Transfers* equals the *Change in Cash Basis Net Assets* or the total increase/(decrease) in net assets for the Utilities for the year. For the fiscal year ending June 30, 2012, the change in net assets was an increase of \$166,482. Add that amount to the *Beginning Net Assets* balance of \$1,068,783 gives us a new *Cash Basis Net Assets – End of Year* balance of \$1,235,265.

The final section of this report shows that the *Cash Basis Net Assets* consist of \$113,000 in restricted expendable funds, \$281,850 in assigned funds and \$840,415 in un-restricted funds. The restricted funds are required to be established by Bond Covenants or State Law, the assigned funds are established by the Board to help it control and manage money for particular purposes and the unrestricted funds are spendable funds not contained in the other categories.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)

The Utilities have only one type of fund: Proprietary or Enterprise funds. These types of funds are used to report Business Type Activities (activities that are primarily self-supporting). The major funds the Utilities maintain are the Electric and Water fund, as well as the Debt Service

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2012

Reserve Fund, Capital Improvement Reserve Fund, and the Diesel Engine Reserve Fund. All other funds are lumped together as Non-Major funds for the purpose of this report. For detailed information on the other funds, go to Other Supplementary Information, Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds (Schedule 1)

Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the *Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements*. This gives us the Net Operating Revenue (Loss) for each fund. After adding in the Bond Proceeds and subtracting out the Debt Service disbursements, and Operating Transfers we come to the *Net Change in Cash Balances* for each fund. This is the Net "Profit/(Loss)" for each of the funds

After adding the *Net Change in Cash Balances* to the *Cash Beginning Balances*, we have the new *Cash Ending Balance* for each of the funds.

The statement then also breaks down the *Cash Ending Balances* by Restricted, Assigned and Unrestricted.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)

This reconciles any differences in the Cash Ending Balances or Net Change in Cash from Exhibit A and Exhibit B.

FINANCIAL HIGHLIGHTS

- The total revenues for all departments were \$3,597,103. This is a decrease of \$441,087 or an 11% decrease from the previous year's revenues. Of this \$441,087 decrease, \$1,150,972 was due to less power cost adjustment applied and last fiscal year we were awarded a grant from the state for our water capital improvement project. No grants were received this fiscal year.
- The total disbursements for all departments were \$3,430,621. The decrease is \$120,691 or approximately 4 percent from the previous year's total expenses.
- **Projects:** The Water Tower Project has been completed. A new 12 inch water main has been installed from the water tower to the treatment plant on Locust Street. A new well house and well has been completed on Adams Street. As of June 30, 2012 \$2,014,603 has been borrowed for the water project. Completion of this project is scheduled for 2013. The water department participated in a utility replacement project in conjunction with the Iowa Department of Transportation. While the IDOT was resurfacing Highway 218, the City and Utility Department decided to replace water and sewer mains to avoid future problems that might occur due to breaks which would result in tearing up the highway. This project will extend into the next fiscal year. Numerous breakages of water mains and valves (due to increase water pressure as a result of the new water tower) have been repaired and/or replaced.
- Revenues exceeded expenses resulting in an increase in the net assets of \$166,482. This is compared to a net increase the previous year of \$486,878 most of which was attributed to receiving a state grant for the Capital Water Improvement Project. The ending fund balance on June 30, 2012 was \$1,235,265.
- According to our Bond Covenant, our Net Operating Revenues (Receipts less Operating Disbursements) for the electric department must be at least 120% of the year's scheduled Bond Payment. The Bond payment paid for FY2012 was \$125,000. This means we must have Net Operating Revenues of \$150,000. Since our revenues exceeded our expenses in the

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2012

Electric Fund by \$294,027, we made our bond test easily. The electric rate increase implemented in June 2010 was designed to make sure we were able to meet this test.

| | Year Ended June 30, 2012 | | \$ | |
|---|--------------------------|-------------|------------|----------|
| | 2012 | 2011 | Difference | % Change |
| Program Receipts: | | | | |
| Charges for Service: | | | | |
| Electric | \$1,845,584 | \$1,933,443 | -\$87,859 | 5% |
| Water | \$559,123 | \$559,118 | \$5 | % |
| Restricted Interest | \$1,835 | \$1,093 | \$742 | 68% |
| General Receipts: | | | | |
| Assigned Interest | \$ | \$1,559 | -\$1,559 | 100% |
| Unassigned Interest | \$2,144 | \$1,578 | \$566 | 36% |
| Miscellaneous | \$37,445 | \$806,696 | -\$769,251 | 96% |
| Proceeds of Long Term Debt | \$1,150,972 | \$734,703 | \$416,269 | 57 % |
| Total Receipts | \$3,597,103 | \$4,038,190 | -\$441,087 | 11% |
| Disbursements: | | | | |
| Operating Disbursements: | | | | |
| Electric | \$1,588,478 | \$1,579,046 | \$9432 | 1% |
| Water | 404,322 | 195,654 | \$208,668 | 107% |
| Capital Projects | 1,124,152 | 1,623,363 | -\$499,211 | 31% |
| Debt Service | 313,669 | 153,249 | \$160,420 | 105% |
| Total Disbursements | \$3,430,621 | \$3,551,312 | -\$120,691 | 4% |
| Increase (Increase) in Cash Balance | \$166,482 | \$486,878 | | |
| Cash Basis Net Assets Beginning of Year | \$1,068,783 | 581,905 | | |
| Cash Basis Net Assets End of Year | \$1,235,265 | \$1,068,783 | | |

2012 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities amended its budget once. The amendment was approved in May 15, 2012. The amendment allowed for the following changes:

Electric department

Revenue:

- Revenues remained unchanged.

Expenses:

- Increased generation expense due to more generation than anticipated.
- Increased buildings and land for black topping the office parking lot.
- Increased our vehicle reserve amount for the purchase of a new bucket truck.

LA PORTE CITY UTILITIES
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2012

Water department

Revenue:

- Revenues remained unchanged.

Expenses:

- Increased general insurance upon completion of the water tower, well and well house.
- Increased maintenance of water lines as we experienced valve and main breakage.
- Increased new meter costs as we begin a change out program.
- Increased work equipment/tools due to purchase of a water valve exerciser.
- Increased capital equipment for purchase of a snow blade.

DEBT ADMINISTRATION

As of June 30, 2012 the Utilities had an obligation of \$405,000 in Revenue Bonds outstanding. The bonds were originally issued March 1, 2000 for \$1,465,000 and reissued in May, 2008 for \$885,000 to take advantage of lower interest rates. The 2008 Series bonds are scheduled to mature in 2015. The Utilities was also continued to borrow against the \$3,000,000 loan from the State Revolving Loan Fund for a Capital Improvement Water System Project. As of June 30, 2012 the outstanding amount of the loan note is \$2,014,603.

NEXT YEAR'S BUDGET AND RATES

The Utilities administration and Board members considered many factors when setting the Fiscal Year 2012 budget.

- According to our Bond Covenant, our projected Net Operating Revenues (Receipts less Operating Disbursements) for the Electric Department must be at least 120% of that year's scheduled Bond Payment. At the time of budgeting, the bond payment due in 2013 is \$125,000. That means we are required to have Net Operating Revenues in the Electric Department of at least \$150,000. We budgeted an Electric rate increase in FY2010 which also included the provision to increase the electric rates 2% a year for the next four years to help ensure that the bond test is met along with meeting our operating cost needs.
- Capital Project Water System Improvement expenses and revenues were estimated to be \$1,700,000 for the Fiscal Year 12-13.
- The remaining items were budgeted fairly consistent compared to those of the 2013 fiscal year. There were minor increases to account for forecast increases in insurance and wages.
- Part of our Capital Plan includes setting monies aside each year for future purchases of capital assets. This was continued as part of the 2013 budget.

CONTACTING THE UTILITIES FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities finances and to show the Utilities are accountable for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Strubel, La Porte City Utilities Office Manager, 403 Main Street, La Porte City, Iowa.

La Porte City Utilities

Basic Financial Statements

La Porte City Utilities
Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2012

| | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets |
|---|---------------|------------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Business Type Activities Total |
| Functions / Programs: | | | | |
| Business type activities: | | | | |
| Electric | \$ 1,588,478 | 1,845,584 | - | 257,106 |
| Water | 404,322 | 559,123 | - | 154,801 |
| Water system capital project | 1,124,152 | - | - | (1,124,152) |
| Debt service | 313,669 | - | - | (313,669) |
| Non-major funds | - | - | 1,835 | 1,835 |
| Total business type activities | 3,430,621 | 2,404,707 | 1,835 | (1,024,079) |
| General Receipts: | | | | |
| Bond proceeds | | | | 1,150,972 |
| Unrestricted interest on investments | | | | 2,144 |
| Miscellaneous | | | | 37,445 |
| Transfers | | | | - |
| Total general receipts and transfers | | | | 1,190,561 |
| Change in cash basis net assets | | | | 166,482 |
| Cash basis net assets beginning of year | | | | 1,068,783 |
| Cash basis net assets end of year | | | | \$ 1,235,265 |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Expendable: | | | | \$ 113,000 |
| Assigned | | | | 281,850 |
| Unrestricted | | | | 840,415 |
| Total cash basis net assets | | | | \$ 1,235,265 |

See notes to financial statements

La Porte City Utilities
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2012

| | Enterprise Funds | | | | Total |
|--|------------------|-----------|------------------------------|----------------------------------|-----------|
| | Electric | Water | Water System Capital Project | Other Nonmajor Proprietary Funds | |
| Operating receipts: | | | | | |
| Use of money and property | \$ 405 | 1,739 | - | 1,835 | 3,979 |
| Charges for service | 1,845,584 | 559,123 | - | - | 2,404,707 |
| Miscellaneous | 36,516 | 929 | - | - | 37,445 |
| Total operating receipts | 1,882,505 | 561,791 | - | 1,835 | 2,446,131 |
| Operating disbursements: | | | | | |
| Business type activities | 1,588,478 | 404,322 | 1,124,152 | - | 3,116,952 |
| Total operating disbursements | 1,588,478 | 404,322 | 1,124,152 | - | 3,116,952 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 294,027 | 157,469 | (1,124,152) | 1,835 | (670,821) |
| Non-operating receipts (disbursements): | | | | | |
| Bond proceeds | - | - | 1,150,972 | - | 1,150,972 |
| Debt service | - | - | - | (313,669) | (313,669) |
| Total non-operating receipts (disbursements) | - | - | 1,150,972 | (313,669) | 837,303 |
| Excess (deficiency) of receipts over (under) disbursements | 294,027 | 157,469 | 26,820 | (311,834) | 166,482 |
| Operating transfers in/(out) | (192,585) | (147,828) | (26,820) | 367,233 | - |
| Net change in cash balances | 101,442 | 9,641 | - | 55,399 | 166,482 |
| Cash balances beginning of year | 198,945 | 530,387 | - | 339,451 | 1,068,783 |
| Cash balances end of year | \$ 300,387 | 540,028 | - | 394,850 | 1,235,265 |
| Cash Basis Fund Balances | | | | | |
| Restricted for: | | | | | |
| Debt service | \$ - | - | - | 103,123 | 103,123 |
| Other purposes | - | - | - | 9,877 | 9,877 |
| Assigned for capital improvement | - | - | - | 281,850 | 281,850 |
| Unrestricted | 300,387 | 540,028 | - | - | 840,415 |
| Total cash basis fund balances | \$ 300,387 | 540,028 | - | 394,850 | 1,235,265 |

See notes to financial statements

La Porte City Utilities

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2012

| | |
|--|--------------|
| Total proprietary funds cash balances (page 14) | \$ 1,235,265 |
|--|--------------|

The utility does not have an internal service fund.
Therefore there are no reconciling items.

-

| | |
|--|----------------------------|
| Cash basis net assets (page 13) | <u><u>\$ 1,235,265</u></u> |
|--|----------------------------|

| | |
|--|------------|
| Net change in cash balances (page 14) | \$ 166,482 |
|--|------------|

The utility does not have an internal service fund.
Therefore there are no reconciling items.

-

| | |
|---|--------------------------|
| Change in cash balance (page 13) | <u><u>\$ 166,482</u></u> |
|---|--------------------------|

See notes to financial statements

La Porte City Utilities

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The La Porte City Utilities is a component unit of the City of La Porte City, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve its budget, modify and approve its rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of La Porte City, and they are approved by the City Council.

For financial reporting purposes, the La Porte City Utilities has included all funds.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utility's nonfiduciary net assets. Net assets are reported in the following categories/components:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function.

Fund Financial Statements - Major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining enterprise funds are aggregated and reported as nonmajor proprietary funds.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

The Water Fund accounts for the operation and maintenance of the Utility's water system.

The Water System Capital Project Fund is a fund established to account for municipal water system improvement projects that began during the year.

C. Measurement Focus and Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility held investments in credit unions which are valued at \$36,655 and are collateralized with letters of credit held by the Utility in accordance with Chapter 12C of the Code of Iowa.

In addition, the Utility had investments in the Iowa Public Agency Investment Trust, which are valued at an amortized cost of \$49,790 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Revenue Bonds and Loans Payable

Annual debt service requirements to maturity for the Electric Revenue Capital Loan Notes are as follows:

| Year Ending June 30, | Utility Revenue Bond | |
|----------------------------|-------------------------|----------|
| | Principal | Interest |
| 2013 | 130,000 | 14,865 |
| 2014 | 135,000 | 10,315 |
| 2015 | 140,000 | 5,320 |
| Total | \$ 405,000 | 30,500 |

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate electric revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additionally, a reserve account within the Enterprise Funds shall be maintained. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

On August 25, 2010 the Utility was awarded Water Revenue Capital Loan Notes, Series 2010 through the Iowa State Revolving Fund Loan Program. The Utility was authorized to disburse up to \$3,000,000 from these notes, the purpose of which are for paying costs associated with acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the La Porte City Municipal Water Utility. As of June 30, 2012 a total of \$2,123,603 had been disbursed from the Loan Notes. Principal payments of \$109,000 and \$52,554 of interest payments were made during the year. A loan amortization payoff schedule will not be finalized until the project is completed and necessary loan funds are disbursed.

(4) Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Utility is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$22,645, \$17,995, and \$17,118, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a single-employer benefit plan which provides medical/prescription drug benefits for employees and retirees. There are 5 active and 1 retired members in the plan. Participants must be age 55 or older at retirement to be eligible.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the full cost of the premium for the medical/prescription drug benefits.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The most recent active member monthly premiums are \$1,832.16 for family coverage and \$732.88 for single coverage. The Utility pays for 100% of the monthly premium. For the year ended June 30, 2012, the Utility paid \$84,980 on behalf of plan members.

(6) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2012, primarily relating to the Electric and Water Funds, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$ 8,945 |
| Sick leave | 2,020 |
| Total | <u>\$ 10,965</u> |

This liability has been computed based on rates of pay in effect at June 30, 2012.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|-----------------------------|------------------------------|---------------|
| Debt Service | Electric | \$ 144,615 |
| Debt Service | Water | 169,054 |
| Capital Improvement Reserve | Electric | 50,000 |
| Capital Improvement Reserve | Water | 6,000 |
| Water | Water System Capital Project | 26,820 |
| Water | Capital Improvement Reserve | 406 |
| Electric | Capital Improvement Reserve | 2,030 |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The Utility had business transactions between the Utility and Utility officials totaling \$164 during the year ended June 30, 2012.

(9) Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balance

There were no deficit fund balances at June 30, 2012.

(11) Litigation

The Utility was not subject to any pending litigation during the year.

(12) Subsequent Events

On July 11, 2012 the Utility board approved the issuance of \$600,000 of Water Revenue Capital Loan Notes for the purpose of paying the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing, and equipping all or part of the Municipal Water Utility. The notes were issued through the State of Iowa's Drinking Water State Revolving Fund Loan Program.

(13) Contracts and Commitments

During the May 9, 2012 board meeting the Utility board members approved a contract with Tschiggfrie Excavating for \$165,564.35 for installation of a new water main. As of June 30, 2012 no payments had been made on the contract.

Other Information

La Porte City Utilities

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Proprietary Funds

Other Information

Year ended June 30, 2012

| | Proprietary Funds Actual | Budgeted Amounts | | Final to Net Variance |
|--|--------------------------------|------------------|-------------|-----------------------------|
| | | Original | Final | |
| Receipts: | | | | |
| Use of money and property | \$ 3,979 | 5,983 | 6,744 | (2,765) |
| Charges for service | 2,404,707 | 2,439,410 | 2,439,410 | (34,703) |
| Miscellaneous | 37,445 | 116,300 | 117,856 | (80,411) |
| Total receipts | 2,446,131 | 2,561,693 | 2,564,010 | (117,879) |
| Disbursements: | | | | |
| Business type activities | 3,116,952 | 2,989,513 | 4,767,458 | 1,650,506 |
| Total disbursements | 3,116,952 | 2,989,513 | 4,767,458 | 1,650,506 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (670,821) | (427,820) | (2,203,448) | 1,532,627 |
| Other financing sources (uses), net | 837,303 | 900,000 | 1,900,000 | (1,062,697) |
| Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses) | 166,482 | 472,180 | (303,448) | 469,930 |
| Balances beginning of year | 1,068,783 | 825,638 | 1,068,783 | - |
| Balances end of year | \$ 1,235,265 | 1,297,818 | 765,335 | 469,930 |

See accompanying independent auditor's report.

La Porte City Utilities

Notes to Other Information – Budgetary Reporting

June 30, 2012

The budgetary comparison is presented with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. Only two of these ten functions are budgeted by La Porte City Utilities and they are: business type activities and debt service. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$2,317 and increased budgeted disbursements by \$1,777,945. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

Supplementary Information

La Porte City Utilities

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2012

| | Proprietary Funds | | | | | |
|---|-------------------|-----------------------------------|-----------------|-----------------------------|---------------------------------|-----------|
| | Meter Deposits | Capital Improvement Reserve | Debt Service | Diesel Engine Reserve | Diesel Engine Improvement | Total |
| Receipts: | | | | | | |
| Use of money and property | \$ 2 | 1,148 | - | 685 | - | 1,835 |
| Total receipts | 2 | 1,148 | - | 685 | - | 1,835 |
| Disbursements: | | | | | | |
| Business type activities | - | - | - | - | - | - |
| Total disbursements | - | - | - | - | - | - |
| Excess (deficiency) of receipts over (under) disbursements | 2 | 1,148 | - | 685 | - | 1,835 |
| Other financing sources: | | | | | | |
| Debt service | - | - | (313,669) | | | (313,669) |
| Operating transfers in/(out) | - | 53,564 | 313,669 | - | - | 367,233 |
| Net change in cash balances | 2 | 54,712 | - | 685 | - | 55,399 |
| Cash balances beginning of year | 9,875 | 227,138 | - | 102,438 | | 339,451 |
| Cash balances end of year | \$ 9,877 | 281,850 | - | 103,123 | - | 394,850 |
| Cash Basis Fund Balances | | | | | | |
| Restricted | \$ 9,877 | - | - | 103,123 | - | 113,000 |
| Assigned for capital improvement | - | 281,850 | - | - | - | 281,850 |
| Unrestricted | - | - | - | - | - | - |
| Total cash basis fund balances | \$ 9,877 | 281,850 | - | 103,123 | - | 394,850 |

See accompanying independent auditor's report

Schedule 2

La Porte City Utilities
Schedule of Indebtedness
Year ended June 30, 2012

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|------------------|-------------------|--------------------------------|
| Utility Revenue Notes - Electric fund | May 1, 2008 | 3.0 - 3.8% | 885,000 |
| State Revolving Loan - Water Revenue Capital Loan Notes | August 25, 2010 | 3% | 3,000,000 |

See accompanying independent auditor's report

Schedule 2

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| \$ 530,000 | - | 125,000 | 405,000 | 19,115 | - |
| 972,631 | 1,150,972 | 109,000 | 2,014,603 | 52,554 | - |
| \$ 1,502,631 | 1,150,972 | 234,000 | 2,419,603 | 71,669 | - |

La Porte City Utilities

Bond Maturities

June 30, 2012

| Year Ending June 30, | Utility Revenue Bonds | |
|----------------------------|-----------------------|------------------|
| | Electric | |
| | Issued May 1, 2008 | |
| | Interest Rates | Amount |
| 2013 | 3.50% | \$ 130,000 |
| 2014 | 3.70% | 135,000 |
| 2015 | 3.80% | 140,000 |
| | | <u>\$405,000</u> |

See accompanying independent auditor's report. Also see Note 3 regarding the payoff for the Water Revenue Capital Loan Notes, Series 2010.

La Porte City Utilities

Schedule of Receipts by Source and Disbursements By Function
All Proprietary Funds

For the Last Ten Years

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts: | | | | | | | | | | |
| Use of money and property | \$ 3,979 | 4,230 | 9,628 | 22,920 | 39,959 | 47,018 | 23,236 | 15,113 | 12,281 | 17,041 |
| Charges for service | 2,404,707 | 2,492,561 | 1,774,921 | 1,653,284 | 1,699,041 | 1,638,317 | 1,531,128 | 1,383,209 | 1,255,468 | 1,170,925 |
| Miscellaneous | 37,445 | 806,696 | 100,511 | 83,983 | 143,393 | 85,755 | 80,284 | 75,614 | 88,088 | 7,579 |
| Bond proceeds | 1,150,972 | 734,703 | 153,028 | 54,900 | 881,080 | - | - | - | - | - |
| Total | \$ 3,597,103 | 4,038,190 | 2,038,088 | 1,815,087 | 2,763,473 | 1,771,090 | 1,634,648 | 1,473,936 | 1,355,837 | 1,195,545 |
| Disbursements: | | | | | | | | | | |
| Business-type | \$ 3,116,952 | 3,398,063 | 2,033,993 | 1,914,276 | 1,782,609 | 1,479,790 | 1,370,877 | 1,219,895 | 1,104,848 | 1,252,566 |
| Debt service | 313,669 | 153,249 | 147,255 | 148,230 | 1,019,635 | 154,595 | 154,320 | 153,740 | 152,760 | 151,285 |
| Total | \$ 3,430,621 | 3,551,312 | 2,181,248 | 2,062,506 | 2,802,244 | 1,634,385 | 1,525,197 | 1,373,635 | 1,257,608 | 1,403,851 |

See accompanying independent auditor's report

La Porte City Utilities
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

| Grantor/Program | CFDA Number | Agency Pass-through Number | Program Expenditures |
|---|----------------|----------------------------------|-------------------------|
| Environmental Protection Agency - Office of Water Capitalization Grants for Drinking Water State Revolving Funds - American Recovery and Reinvestment Act Drinking Water State Revolving Fund Loan | | | |
| Project Number: | 66.468 | FS-07-10-DWSRF-019 D0179R | <u>\$ 596,288</u> |

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the La Porte City Utilities and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

See accompanying independent auditor's report

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the La Porte City Utilities, as of and for the year ended June 30, 2012, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated December 12, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of La Porte City Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered La Porte City Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of La Porte City Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the La Porte City Utilities financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Porte City Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

La Porte City Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit La Porte City Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of La Porte City Utilities and other parties to whom La Porte City Utilities may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of La Porte City Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

December 12, 2012

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133**

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

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Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance in Accordance
with OMB Circular A-133

To the Board of Trustees:

Compliance

We have audited La Porte City Utilities' compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on La Porte City Utilities' major federal program for the year ended June 30, 2012. La Porte City Utilities' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of La Porte City Utilities' management. Our responsibility is to express an opinion on La Porte City Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about La Porte City Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on La Porte City Utilities' compliance with those requirements.

In our opinion, La Porte City Utilities complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of La Porte City Utilities is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered La Porte City Utilities' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we

do not express an opinion on the effectiveness of La Porte City Utilities' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We noted no deficiencies in internal control.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We noted no material weaknesses in internal control.

This report, a public record by law, is intended solely for the information and use of the officials and employees La Porte City Utilities and other parties to whom La Porte City Utilities may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

December 12, 2012

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) La Porte City Utilities did not qualify as a low-risk auditee.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-12 Preparation Financial Statements - La Porte City Utilities does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response - The Utility feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part III: Findings and Questioned Costs for Federal Awards:

**CFDA Number 66.468: Capitalization Grants for Drinking Water State Revolving
Funds – American Recovery and Reinvestment Act
Pass-through Agency Number: FS-07-10-DWSRF-019 D0179R
Federal Award Year: 2012
Environmental Protection Agency – Office of Water
Passed through the Drinking water State Revolving Fund Loan**

INSTANCES OF NON-COMPLIANCE AND INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

La Porte City Utilities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-12 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted.
- IV-B-12 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-12 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- IV-D-12 Business Transactions – Business transactions between the Utility and Utility officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|----------------------------|--------|
| Kathy Strubel, Office Manager, Co-owner of Strubel Windows & Exterior | Purchase of Supplies | 164 |

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction does not appear to represent a conflict of interest since the amount is for less than \$2,500.

- IV-E-12 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-12 Board of Trustee Minutes – Transactions were found that we believe should have been approved in the board of trustee minutes but were not. One transfer made between funds was for a different amount than what was approved by the board. A transfer was approved by the board on November 16, 2011 for \$22,322.54 and the amount actually transferred was \$22,358.88.

Although minutes of the Board of Trustees were published, they were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa, also a summary of all receipts was not published. The January 25, 2012 meeting minutes were published more than 15 days after the meeting.

Recommendation – The Utility should make all transfers as approved in the minutes of meetings. The Utility should comply with Chapter 372.13(6) and publish minutes within 15 days of the board meeting along with a summary of all receipts.

Response – We will make all fund transfers as approved in the future. We will also publish a summary of all receipts with the meeting minutes as required within 15 days of the board meeting.

La Porte City Utilities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Conclusion – Responses accepted.

IV-G-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.

IV-H-12 Revenue Notes – The Utility has complied with the revenue bond and note resolutions.

La Porte City Utilities

Staff

This audit was performed by:

Gina E. Trimble, CPA, Manager
Dana Elliot, CPA, Staff